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NetDragon Websoft Holdings Limited

網龍網絡控股有限公司

(formerly known as “NetDragon Websoft Inc. 網龍網絡有限公司”)

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 777)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

BUSINESS REVIEW AND OUTLOOK

NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) delivered strong results for the fiscal year 2016 by continuing with the focus on building online communities. The Company recorded a 119.5% increase in its revenue to RMB2,793.1 million. Of which, the gaming revenue was RMB1,210.0 million, increased by 22.8%, driven by the robust momentum of the flagship game Eudemon Online (魔域) and more than doubling of the mobile gaming revenue. Revenue from education business jumped by over five times to RMB1,526.3 million due to penetration of the products into the international markets via the Promethean acquisition, as well as acceleration of the product commercialization in China. The achievements in 2016 are recognized by the capital market, as evidenced by the stock being included in the Hang Seng Large-Cap & Mid-Cap Index, Shenzhen-Hong Kong Stock Connect and Shanghai-Hong Kong Stock Connect.

In 2016, the Company also focused on investing and strengthening the technology capabilities. The Augmented Reality (AR) and Virtual Reality (VR) technologies have enabled the Group to enhance the content development in both gaming and education products. With these technologies, both of the gaming and learning platforms are becoming uniquely attractive to the users and were able to maintain a high level of user engagement.

In the coming year, the Group targets to achieve major growth in both the gaming and education business. The gaming business is expected to grow on the back of the push into mobile gaming and a strong pipeline of new games to be launched this year that leverage the proven IPs and technologies. For the education business, the Group will focus on gaining traction in revenue growth, user scaling and user engagement. In particular, part of the multi-pronged strategy in scaling up users is to work closely with the education authorities both in China and around the world. In December 2016, the Company signed a strategic cooperation framework agreement with the Education Department of Fujian Province to co-develop a provincial-wide e-learning platform that will integrate 101 Education PPT and the whole suite of the education products. The Group expects such partnership to drive provincial-wide user adoption and will serve as a reference case for other major provinces. In the international markets, the Group also recently announced a new educational technology partnership with the City of Moscow — this marks the first major step in tapping into the emerging markets to expand the global footprints. The Group will be announcing more partnership with similar models both in China and in the emerging markets later this year. Last not but least, the Group targets to achieve operating profitability in 2017 as a group.

Games Business

During the fourth quarter of 2016, the Company's games business recorded a strong 21.0% year-over-year increase in its revenue at RMB342.7 million, and core segmental profit at RMB97.9 million, an 8.7% increase year-over-year. The solid performance was mainly driven by Eudemons Online (魔域) and Eudemons Online Pocket Version* (魔域口袋版), both of which have reached a record high monthly gross revenue in December 2016 with enhanced ARPU.

On a full year basis, revenue from the games business increased 22.8% to RMB1,210.0 million in 2016, with core segmental profit at RMB371.7 million, an increase of 43.2% over the prior year. During the year, leveraging on the growth trajectory of the mobile gaming space, the Group has pushed forward heavily on the marketing and development effort of the mobile games. Revenue of mobile game business for 2016 doubled compared to the year before. In addition, the Company continued to leverage on the strong titles of its flagship games, in particular with Heroes Evolved (formerly known as “Calibur of Spirit”) (英魂之刃) and Eudemons Online (魔域), by launching new expansion packs coupled with marketing events to drive the growth momentum.

** For identification purpose only*

Eudemons Online (魔域) has gained increasing traction and popularity in the market, as evidenced by a solid year with a combined revenue increase of 31.0% from its PC and pocket version. The new PC expansion pack launched in October 2016 with new game-play features has pushed its gross monthly revenue to a record high level in December 2016. Riding on the success of the PC version, Eudemons Online Pocket Version* (魔域口袋版) has also closed out with a fruitful year — the new expansion pack launched in December 2016, with new feature that aims to strengthen user loyalty and promote online interactions has successfully attracted a significant user traffic. Looking forward, the Company will continue to launch content updates for both its PC and pocket version to further the popularity of Eudemons Online (魔域) in 2017.

The Company's other flagship game, Heroes Evolved (英魂之刃), also experienced a solid year underpinned by its continuous improvement in new game-play features and monetization schemes. The long awaited pocket version of the game has also been successfully launched in English and simplified Chinese in December 2016 on Android platform and also in simplified Chinese on iOS platform in early 2017. The feedback from the market is extremely positive, and the game was ranked as the top of the double list of new games and popular downloads of Tencent Yingyongbao* (應用寶) in January 2017. The Company has planned two new games leveraging the technologies and title of Heroes Evolved (英魂之刃) to be launched in 2017, which would further enhance the user base and revenue ramp-up.

Looking forward, the Company is confident that the games business will continue its robust growth driven by a strong pipeline it has built and the long-term growth strategy through leveraging proprietary gaming IPs and self-owned technologies, as well as making a major push into mobile gaming. The Company is on track to release at least 5 new games in 2017. Included in the pipeline is also a number of mobile games which is expected to drive the Company's mobile gaming revenue to a new level in 2017. The Company will also continue to explore and develop new games with VR and AR technologies, on top of the existing VR Tiger Knight (虎豹騎), which has had received very positive feedback in the market.

Education Business

For the fourth quarter of 2016, revenue from the education business was RMB374.0 million, a 78.3% increase year-over-year. On a pro-forma basis, the international education business registered a 36.8% increase year-over-year in revenue to RMB289.4 million, reflecting a strong finish to the year. On the other hand, the domestic education business continued to gain traction for the quarter as it recorded a revenue at RMB84.6 million, a 52.5% over the third quarter of 2016.

** For identification purpose only*

2016 marks the full year integration of Promethean, the international education subsidiary, which contributed to a 5.3 times increase in 2016 revenue from the education business to RMB1,526.3 million. On a pro-forma basis, revenue from the international business increased by 31.7% to RMB1,345.5 million, reflecting the strong demand for the international education products most notably in the US and UK. The Company has also achieved significant cost rationalization and a more streamlined operations for the international education business during the year. The management targets to achieve overall profitability of the international education business for the full year 2017.

The Company is also gaining exciting traction in emerging markets. In March 2017, the Company has announced a new technology partnership with the City of Moscow where over 14,500 educators throughout Moscow will be able to engage with students using Promethean interactive flat panel display. This partnership illustrates the Company's traction in capitalizing on the Belt and Road Initiative.

The Company has seen significant progress in the user scaling and user engagement activities. The user number of ClassFlowTM, the flagship cloud-based interactive K-12 (Kindergarten-to-Grade 12) software for the international market, has increased to over 2.6 million at the end of 2016 (including 1.7 million teachers).

In the domestic market, the plan is to pursue a multi-pronged strategy in scaling up users in China including (1) forging close partnership with education authorities across the country (case in point being the strategic cooperation framework agreement with the Education Department of Fujian Province signed in December 2016 to drive provincial-wide adoption of the 101 products); (2) holding a series of nationwide educational events for teachers in major cities and provinces to drive teachers' usage; (3) partnering with education technology solutions companies with pre-existing K-12 distribution network to integrate the 101 products into their solutions; and (4) continuing to participate in education technology product tenders in schools across the country. On a worldwide basis including China, the number of total online users of the education platforms is expected to grow to over 10 million including over 3 million teachers in 2017.

Looking forward, the Company will continue to invest in the development of the products, and to apply VR and AR technologies to strengthen the users' learning experience. VR Editor has started its pilot-launch, and the Group is excited with the potential of this product based on the user feedback the Group has received so far. The Company's technologies are also getting increasing validation around the world.

For example, the Group hosted the “2017 Workshop on Virtual Reality and Immersive Learning” at Harvard University in January 2017 to develop a road map that will use virtual reality to improve immersive learning techniques for students globally. Furthermore, the Group will be hosting a major learning event in Hong Kong on 24 March 2017, where world-renowned scientist Professor Stephen Hawking will be beamed from the UK, leveraging on the proprietary Humagram technology, to share his perspectives with university students.

2016 Q4 Financial Highlights

- Revenue was RMB740.0 million, representing a 47.8% increase year-over-year.
- Revenue from the games business was RMB342.7 million, representing 46.3% of the Group’s total revenue, registered a 21.0% increase year-over-year.
- Revenue from the education business was RMB374.0 million, representing 50.5% of the Group’s total revenue, registered a 78.3% increase year-over-year.
- Gross profit was RMB421.0 million, representing a 34.8% increase year-over-year.
- Core segmental profit¹ from the games business was RMB97.9 million, representing an 8.7% increase year-over-year.
- Core segmental loss¹ from the education business was RMB157.7 million, representing a 33.8% increase year-over-year.
- Non-GAAP² operating loss was RMB67.2 million.
- Loss attributable to owners of the Company was RMB94.4 million.

Fiscal Year 2016 Financial Highlights

- Revenue was RMB2.79 billion, representing a 119.5% increase year-over-year.
- Revenue from the games business was RMB1.21 billion, representing 43.3% of the Group’s total revenue, registered a 22.8% increase year-over-year.
- Revenue from the education business was RMB1.53 billion, representing 54.6% of the Group’s total revenue, registered nearly a 5.3 times increase year-over-year.

- Gross profit was RMB1.59 billion, representing a 66.0% increase year-over-year.
- Core segmental profit¹ from the games business was RMB371.7 million, representing a 43.2% increase year-over-year.
- Core segmental loss¹ from the education business was RMB485.2 million, representing a 95.1% increase year-over-year.
- Non-GAAP² operating loss was RMB239.8 million, mainly attributable to continued investment in education business.
- Loss attributable to owners of the Company was RMB202.7 million.

Segmental Financial Highlights

2016 Q4

| (RMB'000) | FY2016 Q4 | | FY2016 Q3 | | FY2015 Q4 | |
|--|------------------|------------------|-----------|-----------|----------------------|-------------------------|
| | Gaming | Education | Gaming | Education | Gaming (Restated) | Education (Restated) |
| Revenue | 342,711 | 374,029 | 286,559 | 392,220 | 283,245 | 209,826 |
| Gross profit | 317,256 | 101,256 | 266,002 | 115,436 | 264,162 | 49,474 |
| Gross margin | 92.6% | 27.1% | 92.8% | 29.4% | 93.3% | 23.6% |
| Core segmental profit (loss) ¹ | 97,898 | (157,737) | 80,110 | (106,301) | 90,080 | (117,871) |
| Segmental operating expenses ³ | | | | | | |
| - Research and development | (107,229) | (109,949) | (91,283) | (95,717) | (76,331) | (72,910) |
| - Selling and marketing | (44,623) | (93,710) | (39,223) | (81,561) | (36,922) | (57,659) |
| - Administrative | (73,307) | (41,584) | (62,046) | (32,569) | (56,707) | (32,807) |

Fiscal Year 2016

| (RMB'000) | FY2016 | | FY2015 | | Variance | |
|---|------------------|------------------|-----------|-----------|----------|-----------|
| | Gaming | Education | Gaming | Education | Gaming | Education |
| Revenue | 1,210,034 | 1,526,298 | 985,427 | 242,801 | 22.8% | 528.6% |
| Gross profit | 1,127,851 | 455,431 | 899,758 | 58,933 | 25.4% | 672.8% |
| Gross margin | 93.2% | 29.8% | 91.3% | 24.3% | 1.9% | 5.5% |
| Core segmental profit (loss) ¹ | 371,678 | (485,176) | 259,508 | (248,619) | 43.2% | 95.1% |
| Segmental operating expenses ³ | | | | | | |
| - Research and development | (357,916) | (384,904) | (293,182) | (147,375) | 22.1% | 161.2% |
| - Selling and marketing | (155,098) | (358,431) | (134,415) | (71,498) | 15.4% | 401.3% |
| - Administrative | (262,403) | (152,195) | (219,039) | (77,404) | 19.8% | 96.6% |

Note 1: Core segmental profit (loss) figures are derived from the Company's reported segmental profit (loss) figures (presented in accordance with HKFRS 8) but exclude non-core/operating, non-recurring or unallocated items including government grants, fair value change and finance cost of financial instruments, fair value change of convertible preferred shares, impairment of property, plant and equipment and provision for product impairment.

Note 2: To supplement the consolidated results of the Group prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), the use of non-GAAP operating loss measure is provided solely to enhance the overall understanding of the Group's current financial performance. The non-GAAP operating loss measure is not expressly permitted measure under HKFRSs and may not be comparable to similarly titled measure for other companies. The non-GAAP operating loss of the Group excludes share-based payments expense, amortisation of intangible assets arising on acquisition of subsidiaries, fair value change of remeasurement of previously held equity interest in an associate upon acquisition, impairment of property, plant and equipment and provision for product impairment.

Note 3: Segmental operating expenses exclude unallocated expenses/income such as depreciation, amortisation and exchange gain (loss) that have been grouped into SG&A categories on the Company's reported consolidated financial statements but cannot be allocated to specific business segments for purpose of calculating the segmental profit (loss) figures in accordance with HKFRS 8.

The following table sets forth the comparative figures for the fourth quarter of 2016, the third quarter of 2016 and the fourth quarter of 2015:

| | Three months ended | | |
|---|---------------------------|--------------------|--------------------|
| | 31 December | 30 September | 31 December |
| | 2016 | 2016 | 2015 |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue | 740,015 | 694,544 | 500,560 |
| Cost of revenue | <u>(318,982)</u> | <u>(309,579)</u> | <u>(188,159)</u> |
| Gross profit | 421,033 | 384,965 | 312,401 |
| Other income and gains | 77,795 | 12,406 | 87,443 |
| Selling and marketing expenses | (139,852) | (122,819) | (93,982) |
| Administrative expenses | (195,168) | (172,074) | (161,490) |
| Development costs | (220,982) | (191,788) | (154,726) |
| Other expenses and losses | (27,620) | (16,041) | (12,080) |
| Share of losses of associates | (148) | (184) | (1,423) |
| Provision for product impairment | <u>(77,774)</u> | <u>—</u> | <u>—</u> |
| Operating loss | (162,716) | (105,535) | (23,857) |
| Interest income on pledged bank deposit | — | — | 1,171 |
| Exchange loss on pledged bank deposit, secured bank borrowings and convertible preferred shares | (11,942) | (5,733) | (5,623) |
| Net gain (loss) on convertible preferred shares | 60,240 | 37,276 | (15,929) |
| Net loss on other derivative financial instrument | — | — | (393) |
| Net gain on disposal of held-for-trading investment | 253 | — | — |
| Net gain on held-for-trading investment | 8,880 | 5,656 | 3,922 |
| Finance costs | <u>(1,955)</u> | <u>(1,927)</u> | <u>(2,940)</u> |
| Loss before taxation | (107,240) | (70,263) | (43,649) |
| Taxation | <u>(10,966)</u> | <u>(4,082)</u> | <u>(80,609)</u> |
| Loss for the period | <u>(118,206)</u> | <u>(74,345)</u> | <u>(124,258)</u> |
| Loss for the period attributable to: | | | |
| - Owners of the Company | (94,413) | (65,435) | (98,075) |
| - Non-controlling interests | <u>(23,793)</u> | <u>(8,910)</u> | <u>(26,183)</u> |
| | <u>(118,206)</u> | <u>(74,345)</u> | <u>(124,258)</u> |

2016 Fourth Quarter Gaming Operational Metrics

The following table sets out the breakdown of peak concurrent users (the “PCU”) and average concurrent users (the “ACU”) for our online and mobile games for periods indicated below (*Note*):

| | Three months ended | | | | |
|-----|---------------------|----------------------|-----------------|------------------|---------------------|
| | 31 December 2016 | 30 September 2016 | 30 June 2016 | 31 March 2016 | 31 December 2015 |
| PCU | 740,000 | 738,000 | 790,000 | 763,000 | 767,000 |
| ACU | 336,000 | 349,000 | 354,000 | 338,000 | 324,000 |

Note: As at 31 December 2016, our online and mobile games include Conquer Online, Eudemons Online, Heroes Evolved, Zero Online, Way of the Five, Tou Ming Zhuang Online, Tian Yuan, Eudemons Online Pocket Version, Heroes Evolved Pocket Version and other games.

- Monthly average revenue per user for online and mobile games was approximately RMB369, a 28.6% increase year-over-year.
- ACU for online and mobile games was approximately 336,000, a 3.7% increase year-over-year.
- PCU for online and mobile games was approximately 740,000, a 3.5% decrease year-over-year.

RESULTS

The board (the “Board”) of directors (the “Directors”) of the Company announced the audited consolidated financial results of the Group for the year ended 31 December 2016 together with the comparative figures in 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

| | <i>NOTES</i> | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|---|--------------|-------------------------------|------------------------|
| Revenue | 4 | 2,793,103 | 1,272,197 |
| Cost of revenue | | <u>(1,203,234)</u> | <u>(314,161)</u> |
| Gross profit | | 1,589,869 | 958,036 |
| Other income and gains | 4 | 163,018 | 187,927 |
| Selling and marketing expenses | | (519,662) | (206,778) |
| Administrative expenses | | (720,967) | (520,104) |
| Development costs | | (759,932) | (446,229) |
| Other expenses and losses | | (61,134) | (24,092) |
| Share of losses of associates | | (862) | (9,912) |
| Provision for product impairment | 8 | <u>(77,774)</u> | <u>—</u> |
| Operating loss | | (387,444) | (61,152) |
| Interest income on pledged bank deposit | | — | 6,018 |
| Exchange loss on pledged bank deposit, secured bank borrowings and convertible preferred shares | | (21,824) | (15,504) |
| Net gain (loss) on convertible preferred shares | 13 | 193,357 | (2,521) |
| Net loss on other derivative financial instrument | | — | (393) |
| Net gain on disposal of held-for-trading investments | | 253 | 876 |
| Net gain (loss) on held-for-trading investments | | 15,546 | (9,144) |
| Finance costs | 5 | <u>(8,650)</u> | <u>(5,431)</u> |
| Loss before taxation | | (208,762) | (87,251) |
| Taxation | 7 | <u>(28,022)</u> | <u>(100,675)</u> |
| Loss for the year | 8 | <u>(236,784)</u> | <u>(187,926)</u> |

| | <i>NOTE</i> | 2016 RMB'000 | 2015 <i>RMB'000</i> |
|---|-------------|-------------------------------|------------------------|
| Other comprehensive (expense) income for the year, net of income tax: | | | |
| Item that will not be reclassified subsequently to profit or loss: | | | |
| Gain on revaluation of properties | | <u>—</u> | <u>21,776</u> |
| | | <u>—</u> | <u>21,776</u> |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | | (82,667) | 12,208 |
| Fair value loss on available-for-sale investment | | <u>(11,302)</u> | <u>—</u> |
| | | <u>(93,969)</u> | <u>12,208</u> |
| Other comprehensive (expense) income for the year | | <u>(93,969)</u> | <u>33,984</u> |
| Total comprehensive expense for the year | | <u>(330,753)</u> | <u>(153,942)</u> |
| Loss for the year attributable to: | | | |
| - Owners of the Company | | (202,742) | (142,979) |
| - Non-controlling interests | | <u>(34,042)</u> | <u>(44,947)</u> |
| | | <u>(236,784)</u> | <u>(187,926)</u> |
| Total comprehensive expense attributable to: | | | |
| - Owners of the Company | | (284,391) | (109,872) |
| - Non-controlling interests | | <u>(46,362)</u> | <u>(44,070)</u> |
| | | <u>(330,753)</u> | <u>(153,942)</u> |
| | | <i>RMB cents</i> | <i>RMB cents</i> |
| Loss per share | 10 | | |
| - Basic | | (40.93) | (28.85) |
| - Diluted | | <u>(40.93)</u> | <u>(28.85)</u> |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

| | <i>NOTES</i> | 2016 RMB'000 | 2015 <i>RMB'000</i> |
|---|--------------|-------------------------------|-------------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 1,284,494 | 1,246,117 |
| Prepaid lease payments | | 509,018 | 438,677 |
| Investment properties | | 57,964 | 55,377 |
| Intangible assets | | 722,498 | 953,950 |
| Interests in associates | | 16,783 | 18,883 |
| Available-for-sale investments | | 17,883 | 5,000 |
| Loan receivables | | 20,477 | 23,081 |
| Trade receivables | 11 | 11,490 | 18,112 |
| Deposits made for acquisition of property, plant and equipment | | 14,585 | 18,302 |
| Goodwill | | 338,237 | 334,839 |
| Deferred tax assets | | 3,445 | 3,611 |
| | | <u>2,996,874</u> | <u>3,115,949</u> |
| Current assets | | | |
| Properties under development | | 55,429 | — |
| Inventories | | 125,285 | 117,584 |
| Prepaid lease payments | | 6,003 | 2,733 |
| Loan receivables | | 13,712 | 3,397 |
| Trade receivables | 11 | 351,693 | 234,733 |
| Amounts due from customers for contract work | | 10,640 | 4,339 |
| Other receivables, prepayments and deposits | | 121,564 | 115,918 |
| Amount due from a related company | | 1,704 | 1,704 |
| Amounts due from associates | | 8,561 | 11,204 |
| Tax recoverable | | 3,281 | 11,159 |
| Held-for-trading investment | | 151,783 | 170,640 |
| Pledged bank deposit | | 411 | — |
| Bank deposits | | 55,496 | 583,091 |
| Bank balances and cash | | 876,532 | 1,126,957 |
| | | <u>1,782,094</u> | <u>2,383,459</u> |
| Assets classified as held for sale | | <u>—</u> | <u>2,690</u> |
| | | <u>1,782,094</u> | <u>2,386,149</u> |

| | | 2016 | 2015 |
|--|--------------|------------------|------------------|
| | <i>NOTES</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Current liabilities | | | |
| Trade and other payables | 12 | 531,757 | 507,592 |
| Amounts due to customers for contract work | | 988 | 993 |
| Provisions | | 45,876 | 29,373 |
| Deferred income | | 84,567 | 85,039 |
| Amount due to a related company | | 978 | 2,254 |
| Amounts due to associates | | 4,558 | 9,632 |
| Convertible preferred shares | 13 | 104,101 | 278,499 |
| Secured bank borrowings | 14 | 29,000 | 25,142 |
| Income tax payable | | <u>18,364</u> | <u>95,194</u> |
| | | <u>820,189</u> | <u>1,033,718</u> |
| Net current assets | | <u>961,905</u> | <u>1,352,431</u> |
| Total assets less current liabilities | | <u>3,958,779</u> | <u>4,468,380</u> |
| Non-current liabilities | | | |
| Other payables | | 5,582 | 12,723 |
| Provisions | | 1,702 | 2,027 |
| Deferred tax liabilities | | <u>123,218</u> | <u>149,993</u> |
| | | <u>130,502</u> | <u>164,743</u> |
| Net assets | | <u>3,828,277</u> | <u>4,303,637</u> |
| Capital and reserves | | | |
| Share capital | | 36,571 | 36,726 |
| Share premium and reserves | | <u>3,817,258</u> | <u>4,257,120</u> |
| Equity attributable to owners of the Company | | 3,853,829 | 4,293,846 |
| Non-controlling interests | | <u>(25,552)</u> | <u>9,791</u> |
| | | <u>3,828,277</u> | <u>4,303,637</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

| | Attributable to owners of the Company | | | | | | | | | | | | | | | |
|---|---------------------------------------|---------------|----------------------------|---------------|-----------------|--------------------|------------------|---------------------|------------------------|---|---------------------|---------------------------------------|------------------|-----------|---------------------------|--------------|
| | Share capital | Share premium | Capital redemption reserve | Other reserve | Capital reserve | Statutory reserves | Dividend reserve | Revaluation reserve | Treasury share reserve | Employee share-based compensation reserve | Translation reserve | Available-for-sale investment reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2015 | 36,943 | 930,286 | 5,223 | 38,755 | 10,045 | 253,699 | 78,865 | 673 | (4,335) | 31,872 | (59,349) | — | 3,244,237 | 4,566,914 | 50,489 | 4,617,403 |
| Loss for the year | — | — | — | — | — | — | — | — | — | — | — | — | (142,979) | (142,979) | (44,947) | (187,926) |
| Other comprehensive income for the year | — | — | — | — | — | — | — | 21,776 | — | — | 11,331 | — | — | 33,107 | 877 | 33,984 |
| Total comprehensive income (expense) for the year | — | — | — | — | — | — | — | 21,776 | — | — | 11,331 | — | (142,979) | (109,872) | (44,070) | (153,942) |
| Repurchase and cancellation of shares | (486) | (70,095) | 486 | — | — | — | — | — | — | — | — | — | (486) | (70,581) | — | (70,581) |
| Shares issued upon exercise of share options | 269 | 27,149 | — | — | — | — | — | — | — | (8,268) | — | — | — | 19,150 | — | 19,150 |
| Contributions from non-controlling interests of a subsidiary | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 1,211 | 1,211 |
| Recognition of equity-settled share-based payments | — | — | — | — | — | — | — | — | — | 5,167 | — | — | — | 5,167 | — | 5,167 |
| Awarded shares vested to employees | — | — | — | — | — | — | — | — | 1,082 | (2,178) | — | — | 1,096 | — | — | — |
| Adjustment arising from transfer of associates to a non-wholly owned subsidiary | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 3,353 | 3,353 |
| Deemed disposal of subsidiaries to non-controlling shareholder | — | — | — | 824 | — | — | — | — | — | — | — | — | — | 824 | (824) | — |
| Dividend paid to non-controlling interest of a subsidiary | — | — | — | — | — | — | — | — | — | — | — | — | — | — | (239) | (239) |
| Acquisition of additional equity interests from non-controlling interests | — | — | — | (115) | — | — | — | — | — | — | — | — | — | (115) | (113) | (228) |
| Transfer upon deregistration of a subsidiary | — | — | — | — | (10) | (69) | — | — | — | — | — | — | 69 | (10) | (16) | (26) |
| Final dividend for 2014 paid | — | — | — | — | — | — | (78,865) | — | — | — | — | — | 480 | (78,385) | — | (78,385) |
| Interim dividend for 2015 declared and paid | — | — | — | — | — | — | — | — | — | — | — | — | (39,246) | (39,246) | — | (39,246) |
| Final dividend for 2015 proposed | — | — | — | — | — | — | 49,767 | — | — | — | — | — | (49,767) | — | — | — |
| Transfers | — | — | — | — | — | 7,084 | — | — | — | — | — | — | (7,084) | — | — | — |
| | (217) | (42,946) | 486 | 709 | (10) | 7,015 | (29,098) | — | 1,082 | (5,279) | — | — | (94,938) | (163,196) | 3,372 | (159,824) |
| At 31 December 2015 | 36,726 | 887,340 | 5,709 | 39,464 | 10,035 | 260,714 | 49,767 | 22,449 | (3,253) | 26,593 | (48,018) | — | 3,006,320 | 4,293,846 | 9,791 | 4,303,637 |
| Loss for the year | — | — | — | — | — | — | — | — | — | — | — | — | (202,742) | (202,742) | (34,042) | (236,784) |
| Other comprehensive expense for the year | — | — | — | — | — | — | — | — | — | — | (70,347) | (11,302) | — | (81,649) | (12,320) | (93,969) |
| Total comprehensive expense for the year | — | — | — | — | — | — | — | — | — | — | (70,347) | (11,302) | (202,742) | (284,391) | (46,362) | (330,753) |
| Repurchase and cancellation of shares | (446) | (101,220) | 446 | — | — | — | — | — | — | — | — | — | (446) | (101,666) | — | (101,666) |
| Shares issued upon exercise of share options | 220 | 23,201 | — | — | — | — | — | — | — | (6,901) | — | — | — | 16,520 | — | 16,520 |
| Shares issued upon acquisition of subsidiaries | 71 | 20,805 | — | — | — | — | — | — | — | — | — | — | — | 20,876 | — | 20,876 |
| Contributions from non-controlling interests of subsidiaries | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 3,723 | 3,723 |
| Recognition of equity-settled share-based payments | — | — | — | — | — | — | — | — | — | 4,020 | — | — | — | 4,020 | — | 4,020 |
| Awarded shares vested to employees | — | — | — | — | — | — | — | — | 1,133 | (3,355) | — | — | 2,222 | — | — | — |
| Deemed disposal of subsidiaries to non-controlling shareholders | — | — | — | (2,585) | — | — | — | — | — | — | — | — | — | (2,585) | 8,377 | 5,792 |
| Dividend paid to non-controlling interest of a subsidiary | — | — | — | — | — | — | — | — | — | — | — | — | — | — | (1,115) | (1,115) |
| Acquisition of additional equity interests from non-controlling interests | — | — | — | (8,708) | — | — | — | — | — | — | — | — | — | (8,708) | (104) | (8,812) |
| Acquisition of a non-wholly owned subsidiary | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 138 | 138 |
| Transfer upon deregistration of a subsidiary | — | — | — | (1) | — | — | — | — | — | — | — | — | 1 | — | — | — |
| Final dividend for 2015 paid | — | — | — | — | — | — | (49,767) | — | — | — | — | — | 8,178 | (41,589) | — | (41,589) |
| Interim dividend for 2016 declared and paid | — | — | — | — | — | — | — | — | — | — | — | — | (42,494) | (42,494) | — | (42,494) |
| Final dividend for 2016 proposed | — | — | — | — | — | — | 44,374 | — | — | — | — | — | (44,374) | — | — | — |
| Transfers | — | — | — | — | — | 32,150 | — | — | — | — | — | — | (32,150) | — | — | — |
| | (155) | (57,214) | 446 | (11,294) | — | 32,150 | (5,393) | — | 1,133 | (6,236) | — | — | (109,063) | (155,626) | 11,019 | (144,607) |
| At 31 December 2016 | 36,571 | 830,126 | 6,155 | 28,170 | 10,035 | 292,864 | 44,374 | 22,449 | (2,120) | 20,357 | (118,365) | (11,302) | 2,694,515 | 3,853,829 | (25,552) | 3,828,277 |

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

| | <i>NOTE</i> | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|---|-------------|-------------------------------|------------------------|
| NET CASH USED IN OPERATING ACTIVITIES | | <u>(304,972)</u> | <u>(128,316)</u> |
| INVESTING ACTIVITIES | | | |
| Interest received | | 26,054 | 95,255 |
| Acquisitions of subsidiaries | 15 | (9,579) | (880,985) |
| Acquisitions of additional equity interests from non-controlling interests | | (8,812) | (228) |
| Proceeds from disposal of property, plant and equipment | | 19,285 | 2,029 |
| Proceeds from disposal of assets classified as held for sale | | 4,192 | — |
| Proceeds from disposal of subsidiaries | | — | 65,396 |
| Proceeds from disposal of held-for-trading investments | | 34,656 | 32,676 |
| Placement of bank deposits | | (552,361) | (1,400,760) |
| Placement of pledged bank deposit | | (411) | — |
| Withdrawal of bank deposits | | 1,087,997 | 2,838,633 |
| Withdrawal of pledged bank deposit | | — | 247,622 |
| Advance of loan receivables | | (12,557) | (9,684) |
| Repayment of loan receivables | | 5,426 | 3,452 |
| Purchase of available-for-sale investment | | (24,185) | — |
| Purchase of prepaid lease payments | | (118,623) | (38,202) |
| Purchase of property, plant and equipment | | (203,687) | (507,379) |
| Purchase of intangible assets | | (25,732) | (22,804) |
| Deposits paid for acquisition of property, plant and equipment | | <u>(12,882)</u> | <u>(17,464)</u> |
| NET CASH FROM INVESTING ACTIVITIES | | <u>208,781</u> | <u>407,557</u> |

| | 2016 | 2015 |
|---|-------------------------|------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| FINANCING ACTIVITIES | | |
| New bank borrowings raised | 1,612,656 | — |
| Repayment of bank and other borrowings | (1,616,868) | (285,838) |
| Payment for repurchase of shares | (101,666) | (70,581) |
| Payment for repurchase of convertible preferred shares | (53) | — |
| Dividends paid | (84,083) | (117,631) |
| Dividend paid to non-controlling interest of a subsidiary | (1,115) | (239) |
| Proceeds from shares issued upon exercise of share options | 16,520 | 19,150 |
| Proceeds from issue of convertible preferred shares | — | 260,359 |
| Contribution from non-controlling shareholders | 3,723 | — |
| Return of contribution to an associate and non-controlling shareholder from a subsidiary of the Group | — | (26) |
| | <u>—</u> | <u>(26)</u> |
| NET CASH USED IN FINANCING ACTIVITIES | <u>(170,886)</u> | <u>(194,806)</u> |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (267,077) | 84,435 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 1,126,957 | 1,036,788 |
| EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | <u>16,652</u> | <u>5,734</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH | <u>876,532</u> | <u>1,126,957</u> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

1. GENERAL

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability and its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate controlling shareholders are Messrs. Liu Dejian, Liu Luyuan and Zheng Hui. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Units 2001-05 & 11, 20th Floor, Harbour Centre, 25 Harbour Road, Wan Chai, Hong Kong.

Pursuant to the special resolution passed by the shareholders at the annual general meeting held on 19 May 2016, the name of the Company was changed from NetDragon Websoft Inc. to NetDragon Websoft Holdings Limited.

The Company is an investment holding company. The principal activities of the Group are engaged in (i) online games development, including games design, programming and graphics and online games operation, (ii) education business and (iii) mobile solution, products and marketing business.

The consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatory effective for the current year

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

| | |
|--|--|
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations |
| Amendments to HKAS 1 | Disclosure Initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012-2014 Cycle |

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|------------------------------------|--|
| HKFRS 9 | Financial Instruments ¹ |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments ¹ |
| HKFRS 16 | Leases ² |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions ¹ |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³ |
| Amendments to HKAS 7 | Disclosure Initiative ⁴ |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses ⁴ |

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2017.

4. REVENUE, OTHER INCOME AND GAINS

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|--|-------------------------|-------------------------|
| Revenue | | |
| Online game revenue | 1,210,034 | 985,427 |
| Education revenue | 1,526,298 | 242,801 |
| Mobile solution, products and marketing revenue | <u>56,771</u> | <u>43,969</u> |
| | <u>2,793,103</u> | <u>1,272,197</u> |
| | | |
| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
| Other income and gains | | |
| Government grants (<i>Note</i>) | 87,798 | 64,480 |
| Interest income | 17,502 | 63,999 |
| Net foreign exchange gain | 16,760 | 32,986 |
| Net gain on disposal of property, plant and equipment | 7,637 | — |
| Game implementation income | 8,158 | 11,618 |
| Gain on disposal of assets classified as held for sale | 1,601 | — |
| Rental income, net of negligible outgoing expenses | 6,570 | 2,598 |
| Server rental income | 662 | 346 |
| Reversal of allowance for doubtful debt | 3,051 | — |
| Others | <u>13,279</u> | <u>11,900</u> |
| | <u>163,018</u> | <u>187,927</u> |

Note: Government grants were received from the government of the People's Republic of China (the "PRC") mainly for subsidising the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to software or technology development. There are no unfulfilled conditions or contingencies relating to the grants.

5. FINANCE COSTS

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|-----------------------------|------------------------|------------------------|
| Interest on bank borrowings | 5,115 | 4,646 |
| Other interest expense | <u>3,535</u> | <u>785</u> |
| | <u>8,650</u> | <u>5,431</u> |

6. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

The following is an analysis of the Group’s revenue and results by reportable segments:

2016

| | Online game <i>RMB’000</i> | Education <i>RMB’000</i> | Mobile solution, products and marketing <i>RMB’000</i> | Total <i>RMB’000</i> |
|--|-------------------------------|-----------------------------|---|-------------------------|
| Segment revenue | <u>1,210,034</u> | <u>1,526,298</u> | <u>56,771</u> | <u>2,793,103</u> |
| Segment profit (loss) | <u>168,497</u> | <u>(82,499)</u> | <u>(22,115)</u> | 63,883 |
| Unallocated income and gains | | | | 22,250 |
| Unallocated expenses and losses | | | | (310,441) |
| Net gain on held-for-trading investment | | | | <u>15,546</u> |
| Loss before taxation | | | | <u>(208,762)</u> |

2015

| | Online game <i>RMB’000</i> | Education <i>RMB’000</i> | Mobile solution and marketing <i>RMB’000</i> | Total <i>RMB’000</i> |
|---|-------------------------------|-----------------------------|--|-------------------------|
| Segment revenue | <u>985,427</u> | <u>242,801</u> | <u>43,969</u> | <u>1,272,197</u> |
| Segment profit (loss) | <u>357,046</u> | <u>(274,100)</u> | <u>(26,370)</u> | 56,576 |
| Unallocated income and gains | | | | 82,922 |
| Unallocated expenses and losses | | | | (217,605) |
| Net loss on held-for-trading investments | | | | <u>(9,144)</u> |
| Loss before taxation | | | | <u>(87,251)</u> |

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned by or loss incurred from each segment without allocation of share-based payments expense, net gain (loss) on held-for-trading investments, net gain on disposal of held-for-trading investments, income tax expenses, and unallocated income, gains, expenses and losses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

All of the segment revenue reported above is from external customers.

The following is an analysis of the Group's assets by operating segments:

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|---|-------------------------|-------------------------|
| Online game | 2,191,394 | 2,699,063 |
| Education | 1,802,731 | 1,841,183 |
| Mobile solution, products and marketing | <u>195,575</u> | <u>165,992</u> |
| Total segment assets | 4,189,700 | 4,706,238 |
| Unallocated | <u>589,268</u> | <u>795,860</u> |
| | <u>4,778,968</u> | <u>5,502,098</u> |

For the purposes of monitoring segment performance and allocating resources, all assets are allocated to operating segments other than those assets managed on group basis, such as available-for-sale investments, held-for-trading investment, loan receivables, properties under development, certain prepaid lease payments, certain bank deposits and bank balances and cash. No analysis of the Group's liabilities by operating segments is disclosed as they are not regularly provided to the CODM for review.

Geographical information

The Group's operations are mainly located in the PRC, the United States of America ("USA") and the United Kingdom ("UK").

The Group's revenue from external customers by geographical location of the operations are detailed below:

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|-------------|-------------------------|-------------------------|
| PRC | 1,300,127 | 941,874 |
| USA | 842,043 | 194,259 |
| Hong Kong | 53,011 | 41,798 |
| UK | 166,418 | 9,248 |
| Germany | 54,310 | 8,276 |
| France | 48,578 | 10,997 |
| Australia | 32,858 | 3,298 |
| Italy | 29,332 | 6,043 |
| Netherlands | 26,060 | 2,943 |
| Turkey | 23,056 | — |
| Others | <u>217,310</u> | <u>53,461</u> |
| | <u>2,793,103</u> | <u>1,272,197</u> |

The Group's non-current assets, excluding available-for-sale investments, loan receivables and deferred tax assets, by geographical location of assets are detailed below:

| | 2016 | 2015 |
|-----------|-------------------------|-------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| PRC | 1,899,480 | 1,794,131 |
| UK | 783,495 | 1,051,693 |
| Hong Kong | 264,858 | 227,695 |
| USA | 6,954 | 10,335 |
| France | 238 | 372 |
| Germany | 17 | 27 |
| Indonesia | — | 4 |
| Thailand | 27 | — |
| | <u>2,955,069</u> | <u>3,084,257</u> |

No single customer of the Group individually contributed over 10% of the Group's revenue for the years ended 31 December 2016 and 2015.

7. TAXATION

| | 2016 | 2015 |
|---|-----------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| The tax charge comprises: | | |
| Hong Kong Profits Tax | | |
| - Current year | 4,751 | 6,247 |
| - Over provision in prior years | — | <u>(322)</u> |
| | <u>4,751</u> | <u>5,925</u> |
| PRC Enterprise Income Tax ("EIT") | | |
| - Current year | 43,484 | 20,957 |
| - Withholding tax | 198 | 525 |
| - (Over) under provision in prior years | <u>(143)</u> | <u>75,325</u> |
| | <u>43,539</u> | <u>96,807</u> |
| Taxation in other jurisdiction | | |
| - Current year | 593 | 223 |
| - Over provision in prior years | <u>(8,536)</u> | <u>—</u> |
| | <u>(7,943)</u> | <u>223</u> |

| | 2016 | 2015 |
|--|------------------------|-----------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Deferred tax | | |
| - Origination and reversal of temporary differences | 177 | 189 |
| - Crystallisation of deferred tax on intangible assets | <u>(12,502)</u> | <u>(2,469)</u> |
| | <u>(12,325)</u> | <u>(2,280)</u> |
| | <u>28,022</u> | <u>100,675</u> |

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both years.

PRC EIT is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC.

UK corporation tax rate applicable to the relevant subsidiaries is 20% for both years.

8. LOSS FOR THE YEAR

| | 2016 | 2015 |
|---|-------------------------|-----------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Loss for the year has been arrived at after charging (crediting): | | |
| Staff costs: | | |
| Directors' emoluments | 11,273 | 7,724 |
| Other staff costs | | |
| Salaries and other benefits | 1,165,450 | 655,867 |
| Contributions to retirement benefits schemes | 105,863 | 69,275 |
| Share-based payments expense | <u>949</u> | <u>8,254</u> |
| | <u>1,283,535</u> | <u>741,120</u> |
| Auditor's remuneration | | |
| - audit services | 4,392 | 2,206 |
| - non-audit services | <u>8,519</u> | <u>5,958</u> |
| | <u>12,911</u> | <u>8,164</u> |
| Amortisation of intangible assets | 128,279 | 35,437 |
| Amortisation of prepaid lease payments (included in administrative expenses) | 5,687 | 2,812 |
| Depreciation of property, plant and equipment | <u>148,043</u> | <u>113,678</u> |
| Total depreciation and amortisation | <u>282,009</u> | <u>151,927</u> |

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Cost of goods sold for education equipment | 994,182 | 145,707 |
| Advertising and promotion expenses (included in selling and marketing expenses) | 148,755 | 87,866 |
| Transaction costs for very substantial acquisition (excluded auditor's remuneration) | — | 17,233 |
| Write-off of other receivable as uncollectible | — | 4 |
| Impairment on property, plant and equipment | 3,885 | — |
| Impairment on trade and other receivables | 10,794 | 1,911 |
| Write-off of deposit paid for acquisition of property, plant and equipment | 1,162 | — |
| Operating lease rentals in respect of | | |
| - rented premises | 63,851 | 47,709 |
| - computer equipment | 46,535 | 52,815 |
| Gross rental income from investment properties | (1,684) | (163) |
| Less: Direct operating expenses incurred for investment properties that generated rental income during the year | <u>—</u> | <u>142</u> |
| | <u>(1,684)</u> | <u>(21)</u> |
| Impairment on intangible assets | 61,092 | — |
| Write-off of inventories | 6,617 | — |
| Provision for purchase orders surrendered | 10,065 | — |
| Provision for product impairment (<i>Note</i>) | <u>77,774</u> | <u>—</u> |
| Net (gain) loss on disposal of property, plant and equipment | (7,637) | 667 |
| Adjustment arising from transfer of associates to a non-wholly owned subsidiary | — | 3,353 |
| Fair value change of remeasurement of previously held equity interest in an associate upon acquisition | 1,075 | — |
| Fair value loss of investment properties | 1,114 | — |
| Net foreign exchange loss (gain) | <u>5,064</u> | <u>(17,482)</u> |

Note: Provision for impairment of Activwall education hardware product represents provision made by the Group for a specific product in relation to the education segment since the management has halted the sales of that specific education product due to the past performance and future market development.

9. DIVIDENDS

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Dividends recognised as distribution during the year: | | |
| 2016 Interim - Hong Kong dollar ("HKD") 0.10 (2015: 2015 Interim dividend of HKD0.10) per share | 42,494 | 39,246 |
| 2015 Final - HKD0.10 (2015: 2014 Final dividend of HKD0.20) per share | <u>41,589</u> | <u>78,385</u> |
| | <u>84,083</u> | <u>117,631</u> |

The final dividend of HKD0.10 (2015: HKD0.10) per share which has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting, amounted to approximately RMB44,374,000 (2015: RMB49,767,000).

10. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|---|-------------------------|------------------------|
| Loss for the purpose of basic and diluted loss per share: | | |
| - loss for the year attributable to the owners of the Company | <u>(202,742)</u> | <u>(142,979)</u> |
| | Number of shares | |
| | 2016 | 2015 |
| | <i>'000</i> | <i>'000</i> |
| Weighted average number of shares in issue during the year for the purpose of basic loss per share (after adjusted for the effect of unvested and treasury shares held under share award scheme) | <u>495,385</u> | <u>495,540</u> |

The calculation of diluted loss per share for the years ended 31 December 2016 and 2015 does not assume the exercise of the Company's outstanding share options as the exercise of the Company's share options would result in a decrease in loss per share.

11. TRADE RECEIVABLES

The Group generally allows a credit period ranging from 30 days to 90 days to its agents/trade customers. For customers in education business, the Group accepts settlement of trade receivables by four years in accordance with the agreements.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the date of delivery of goods/date of rendering of services which approximated the respective revenue recognition dates.

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Trade debtors | | |
| 0 - 30 days | 219,717 | 126,351 |
| 31 - 60 days | 72,091 | 63,674 |
| 61 - 90 days | 26,646 | 19,197 |
| Over 90 days | 25,980 | 13,681 |
| Receivables with extended credit terms | | |
| Due within one year | 7,259 | 11,830 |
| Due after one year | <u>11,490</u> | <u>18,112</u> |
| | <u><u>363,183</u></u> | <u><u>252,845</u></u> |

Before accepting any new agent/customer, the Group uses an internal credit assessment policy to assess the potential agent/customer's credit quality and define credit limits by agent/customer. Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB81,315,000 (2015: RMB32,466,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss as there has not been significant changes in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|--------------|------------------------|------------------------|
| 31 - 60 days | 40,622 | 12,301 |
| 61 - 90 days | 14,167 | 6,808 |
| Over 90 days | <u>26,526</u> | <u>13,357</u> |
| Total | <u><u>81,315</u></u> | <u><u>32,466</u></u> |

Movement in the allowance for doubtful debts

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|---|------------------------|------------------------|
| At beginning of year | 14,600 | 7,664 |
| Allowances recognised on receivables | 6,794 | 1,911 |
| Allowances reversed during the year | (3,051) | — |
| Allowances written off | (5,202) | — |
| Acquired on acquisition of subsidiaries | — | 4,447 |
| Exchange differences | <u>489</u> | <u>578</u> |
| At end of year | <u>13,630</u> | <u>14,600</u> |

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB13,630,000 (2015: RMB14,600,000) of which the debtors have been in dispute with the Group.

12. TRADE AND OTHER PAYABLES

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Trade payables | 215,844 | 198,132 |
| Accrued staff costs | 161,940 | 133,786 |
| Receipt in advance | 32,179 | 30,442 |
| Other tax payables (<i>Note a</i>) | 16,622 | 15,430 |
| Other payables and accruals (<i>Note b</i>) | <u>105,172</u> | <u>129,802</u> |
| | <u>531,757</u> | <u>507,592</u> |

Notes:

- a. On 28 December 2011, 91 Wireless Websoft Limited (“91 Limited”) introduced a share award scheme, whereby eligible participants are conferred rights by 91 Limited to be issued or transferred fully-paid ordinary shares in the capital of 91 Limited. Upon the disposal of 91 Limited and its subsidiaries on 1 October 2013, the eligible participants would be entitled to the merger consideration of United States dollars (“USD”)13.168 per share and the special dividend of USD0.371 per share of 91 Limited in cash, which were both received by the Group on behalf of the eligible participants. Included in other tax payables as at 31 December 2015, was an amount of approximately RMB0.8 million (2016: nil) of withholding PRC personal income tax calculated at the applicable tax rate and other surcharges was withheld by the Group.
- b. Other payables and accruals mainly represent construction payable, advertising payable, office and server rental payable and other miscellaneous items for operating and investing activities.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

| | 2016 | 2015 |
|----------------|-----------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| 0 - 90 days | 165,030 | 137,998 |
| 91 - 180 days | 49,629 | 57,186 |
| 181 - 365 days | 141 | 2,297 |
| Over 365 days | <u>1,044</u> | <u>651</u> |
| | <u>215,844</u> | <u>198,132</u> |

13. CONVERTIBLE PREFERRED SHARES

Best Assistant Education Online Limited (“Best Assistant”), an indirect non-wholly owned subsidiary of the Company issued 180,914,513 Series A convertible preferred shares of par value of USD0.001 each at an aggregate issue price of USD52,500,000 (equivalent to approximately RMB321,762,000) to IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (which collectively own approximately 13.6% of the issued share capital of the Company), Vertex Asia Fund Pte. Ltd., Alpha Animation and Culture (Hong Kong) Company Limited, Catchy Holdings Limited, DJM Holding Ltd. (in which Mr. Liu Dejian and Mr. Zheng Hui, executive directors and beneficial owners of the Company together have 100% equity interest), Creative Sky International Limited and NetDragon Websoft Inc., a direct wholly owned subsidiary of the Company on 13 February 2015. The Series A convertible preferred shares are denominated in USD.

Conversion

Series A convertible preferred shares shall be converted, at the option of the holder thereof, at any time after the issue date of the convertible preferred shares, into ordinary shares of the subsidiary of the Company at the applicable conversion ratio which was initially one ordinary share for each convertible preferred share. The initial conversion ratio of 1:1 is subject to adjustments, in the event of share split, share division, share combination, share dividend, reorganisation, merger, consolidation, reclassification, exchange, substitution, recapitalisation or similar event.

Series A convertible preferred shares shall be automatically converted into ordinary shares upon occurrence of an underwritten public offering of the ordinary shares of the subsidiary of the Company wherein the pre-offering market capitalisation of the subsidiary of the Company is no less than USD1,000,000,000 and net proceeds to the subsidiary of the Company are in excess of USD100,000,000.

Dividends

The holders of outstanding Series A convertible preferred shares shall be entitled to receive dividends, when, as and if declared by the board of the subsidiary of the Company, out of the funds lawfully available therefor, in preference and priority to any declaration or payment of any distribution on ordinary shares or other equity securities. The right to receive dividends on Series A convertible preferred shares shall not be cumulative, and no rights to such dividends shall accrue to holders of convertible preferred shares.

Liquidation

The holders of the Series A convertible preferred shares have preference over holders of ordinary shares and other equity securities with respect to payment of dividends and distribution of assets and funds upon liquidation of the subsidiary of the Company. The holders of the Series A convertible preferred shares shall be entitled to receive an amount equivalent to 300% of the issue price of Series A convertible preferred shares, plus all declared but unpaid dividends.

The Series A convertible preferred shares are classified as current liabilities.

The Group has elected to designate the Series A convertible preferred shares with embedded derivatives as financial liabilities at fair value through profit or loss on initial recognition. At the end of each reporting period subsequent to initial recognition, the entire Series A convertible preferred shares are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

The movements of the Series A convertible preferred shares for the year are set out as below:

| | 2016 | 2015 |
|---|-----------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| At 1 January | 278,499 | — |
| Issue of convertible preferred shares | — | 260,474 |
| Payment for repurchase of shares by the Group | (53) | — |
| Fair value change | (193,357) | 2,521 |
| Exchange adjustments | <u>19,012</u> | <u>15,504</u> |
| At 31 December | <u>104,101</u> | <u>278,499</u> |

14. SECURED BANK BORROWINGS

The secured bank borrowings carry interest rate of 200 to 250 basis points over 30-day London Inter-Bank Offer Rate. The borrowings were secured by share pledges over the shares and fixed and floating charges over the assets of certain subsidiaries.

15. ACQUISITION OF SUBSIDIARIES

Acquisition of 北京就是迷文化傳媒有限公司 (“北京就是迷”)

In January 2016, the Group entered into an agreement with independent third parties to acquire 100% equity interests of 北京就是迷 at a maximum aggregate cash consideration of RMB3,300,000. The transaction was completed on 1 February 2016. This subsidiary is principally engaged in organising art and cultural exchange activities.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | <i>RMB'000</i> |
|---|-----------------------|
| Non-current asset | |
| Property, plant and equipment | 50 |
| Current assets | |
| Deposits, prepayments and other receivables | 19 |
| Bank balances and cash | 1 |
| Current liability | |
| Other payables | <u>(2,874)</u> |
| Net liabilities recognised | <u><u>(2,804)</u></u> |

Goodwill arising on acquisition of 北京就是迷

| | <i>RMB'000</i> |
|---|---------------------|
| Consideration transferred | 3,300 |
| Less: Fair value of identifiable net liabilities recognised | <u>2,804</u> |
| Goodwill arising on acquisition | <u><u>6,104</u></u> |

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Net cash outflow on acquisition of 北京就是迷

| | <i>RMB'000</i> |
|--|-------------------|
| Consideration paid in cash | 460 |
| Less: Cash and cash equivalent balances acquired | <u>(1)</u> |
| | <u><u>459</u></u> |

Impact of acquisition on the results of the Group

Included in the loss for the year ended 31 December 2016 was the loss of approximately RMB805,000 attributable to the additional business generated by 北京就是迷. Revenue for the year ended 31 December 2016 approximated RMB2,778,000.

Had the acquisition been completed on 1 January 2016, total group revenue for the year ended 31 December 2016 would have been RMB2,793 million, and loss for the year ended 31 December 2016 would have been RMB237 million. The directors of the Company consider these ‘pro-forma’ numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Acquisition of 廈門易用軟件技術有限公司 (“廈門易用”)

On 10 March 2016, the Group entered into share transfer agreements with independent third parties to acquire 20.96% controlling equity interests of 廈門易用 at a maximum aggregate cash consideration of RMB88,000. The transaction was completed on 23 March 2016. This subsidiary is principally engaged in provision of business management software application development.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | <i>RMB'000</i> |
|---|-------------------|
| Non-current asset | |
| Property, plant and equipment | 4 |
| Current assets | |
| Deposits, prepayments and other receivables | 26 |
| Bank balances and cash | 388 |
| Current liability | |
| Other payables | <u>(37)</u> |
| Net assets acquired | <u><u>381</u></u> |

Non-controlling interests

The non-controlling interests (36.14%) in 廈門易用 recognised at the acquisition date were measured by reference to the proportionate share of fair value of identifiable assets and liabilities of 廈門易用 at the date of acquisition.

Goodwill arising on acquisition of 廈門易用*RMB'000*

| | |
|--|--------------|
| Consideration transferred | 88 |
| Add: Non-controlling interests | 138 |
| Add: Fair value of assets previously held | 163 |
| Less: Fair value of identifiable net assets acquired | <u>(381)</u> |
| Goodwill arising on acquisition | <u>8</u> |

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Net cash inflow on acquisition of 廈門易用*RMB'000*

| | |
|--|--------------|
| Consideration paid in cash | 88 |
| Less: Cash and cash equivalent balances acquired | <u>(388)</u> |
| | <u>(300)</u> |

Impact of acquisition on the results of the Group

Included in the loss for the year ended 31 December 2016 was the loss of approximately RMB205,000 attributable to the additional business generated by 廈門易用. Revenue for the year ended 31 December 2016 included RMB94,000 generated from 廈門易用.

Had the acquisition been completed on 1 January 2016, total group revenue for the year ended 31 December 2016 would have been RMB2,793 million, and loss for the year ended 31 December 2016 would have been RMB237 million. The directors of the Company consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Acquisition of Cherrypicks Alpha Resources Limited (“Cherrypicks Alpha Resources”)

On 22 April 2016, the Group entered into an agreement with an independent third party to acquire 100% interests of Cherrypicks Alpha Resources at a maximum aggregate consideration of USD3,160,000 (equivalent to approximately RMB20,876,000). The consideration was satisfied by the allotment and issue of 1,087,621 new shares of the Company credited as fully paid up at an issue price of HKD22.75 (the “Consideration Shares”). The Consideration Shares were allotted and issued on 19 May 2016 pursuant to the general mandate granted to the directors by the shareholders at the annual general meeting of the Company on 21 May 2015. The transaction was completed on 19 May 2016. This subsidiary is principally engaged in development and provision of products in augmented reality and computer vision with machine learning technology.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | <i>RMB'000</i> |
|---|---------------------|
| Non-current assets | |
| Property, plant and equipment | 542 |
| Intangible asset | 8,209 |
| Current assets | |
| Deposits, prepayments and other receivables | 428 |
| Amounts due from related companies | 3,469 |
| Bank balances and cash | 222 |
| Current liabilities | |
| Trade and other payables | (180) |
| Amounts due to related companies | (5,849) |
| Non-current liability | |
| Deferred tax liability | <u>(1,355)</u> |
| Net assets acquired | <u><u>5,486</u></u> |

Goodwill arising on acquisition of Cherrypicks Alpha Resources

| | <i>RMB'000</i> |
|--|----------------------|
| Consideration transferred | 20,876 |
| Less: Fair value of identifiable net assets acquired | <u>(5,486)</u> |
| Goodwill arising on acquisition | <u><u>15,390</u></u> |

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Net cash inflow on acquisition of Cherrypicks Alpha Resources

| | <i>RMB'000</i> |
|--|---------------------|
| Consideration paid in cash | — |
| Less: Cash and cash equivalent balances acquired | <u>(222)</u> |
| | <u><u>(222)</u></u> |

Impact of acquisition on the results of the Group

Included in the loss for the year ended 31 December 2016 was the loss of approximately RMB4,048,000 attributable to the additional business generated by Cherrypicks Alpha Resources. Revenue for the year ended 31 December 2016 approximated RMB309,000.

Had the acquisition been completed on 1 January 2016, total group revenue for the year ended 31 December 2016 would have been RMB2,795 million, and loss for the year ended 31 December 2016 would have been RMB229 million. The directors of the Company consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Acquisition of Cherrypicks Alpha Holdings Limited and its subsidiaries ("Cherrypicks Alpha Group")

On 22 April 2016, the Group entered into an agreement with an independent third party to acquire 100% equity interests of Cherrypicks Alpha Group at a maximum cash consideration of USD1,500,000 (equivalent to approximately RMB9,830,000) and the incentive shares issued by Cherrypicks International Holdings Limited ("Cherrypicks International") which represented 7.8% of the shareholding interest of Cherrypicks International. The transaction was completed on 19 May 2016. Cherrypicks Alpha Group is a leading enterprise in development and provision of mobile products in Proximity Detection, Indoor Positioning and intelligent bot technologies.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | <i>RMB'000</i> |
|---|-------------------|
| Non-current assets | |
| Property, plant and equipment | 179 |
| Intangible asset | 9,220 |
| Current assets | |
| Deposits, prepayments and other receivables | 11 |
| Bank balances and cash | 188 |
| Current liabilities | |
| Trade and other payables | (324) |
| Amounts due to related companies | (3,486) |
| Borrowing | (3,270) |
| Non-current liability | |
| Deferred tax liability | <u>(1,521)</u> |
| Net assets acquired | <u><u>997</u></u> |

Goodwill arising on acquisition of Cherrypicks Alpha Group

| | |
|--|----------------|
| | <i>RMB'000</i> |
| Consideration transferred | 15,622 |
| Less: Fair value of identifiable net assets acquired | <u>(997)</u> |
| Goodwill arising on acquisition | <u>14,625</u> |

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Net cash outflow on acquisition of Cherrypicks Alpha Group

| | |
|--|----------------|
| | <i>RMB'000</i> |
| Consideration paid in cash | 9,830 |
| Less: Cash and cash equivalent balances acquired | <u>(188)</u> |
| | <u>9,642</u> |

Impact of acquisition on the results of the Group

Included in the loss for the year ended 31 December 2016 was the loss of approximately RMB1,453,000 attributable to the additional business generated by Cherrypicks Alpha Group. No revenue from Cherrypicks Alpha Group was generated for the year ended 31 December 2016.

Had the acquisition been completed on 1 January 2016, total group revenue for the year ended 31 December 2016 would have been RMB2,794 million, and loss for the year ended 31 December 2016 would have been RMB239 million. The directors of the Company consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Acquisition of Promethean World Limited and its subsidiaries ("Promethean Group")

On 10 July 2015, the Group entered into a co-operation agreement to acquire 100% equity interests of Promethean Group at a maximum aggregate cash consideration of Great Britain Pound 84.8 million (equivalent to approximately RMB820 million). The transaction was completed on 2 November 2015. Promethean Group is principally engaged in creating, developing, support and sale of education hardware and software products for the education market globally.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | <i>RMB'000</i> |
|---|------------------|
| Non-current assets | |
| Property, plant and equipment | 50,903 |
| Intangible assets | 763,745 |
| Deferred tax assets | 3,736 |
| Current assets | |
| Inventories | 111,329 |
| Trade receivables | 184,908 |
| Other receivables, prepayments and deposits | 19,699 |
| Derivative financial assets | 400 |
| Tax recoverable | 9,563 |
| Bank balances and cash | 10,877 |
| Assets classified as held for sale | 2,723 |
| Current liabilities | |
| Trade and other payables | (287,709) |
| Deferred income | (61,735) |
| Provisions | (34,671) |
| Borrowings | (63,358) |
| Income tax payable | (6,985) |
| Non-current liabilities | |
| Provisions | (2,524) |
| Deferred tax liabilities | <u>(144,388)</u> |
| Net assets acquired | <u>556,513</u> |

Goodwill arising on acquisition of Promethean Group

| | <i>RMB'000</i> |
|--|------------------|
| Consideration transferred | 820,242 |
| Less: Fair value of identifiable net assets acquired | <u>(556,513)</u> |
| Goodwill arising on acquisition | <u>263,729</u> |

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Net cash outflow on acquisition of Promethean Group

RMB'000

| | |
|--|-----------------|
| Consideration paid in cash | 820,242 |
| Less: Cash and cash equivalent balances acquired | <u>(10,877)</u> |
| | <u>809,365</u> |

Impact of acquisition on the results of the Group

Included in the loss for the year ended 31 December 2015 was the loss of approximately RMB44,455,000 attributable to the additional business generated by Promethean Group. Revenue for the year ended 31 December 2015 included RMB156,265,000 generated from Promethean Group.

Had the acquisition been completed on 1 January 2015, total group revenue for the year ended 31 December 2015 would have been RMB2,138 million, and loss for year ended 31 December 2015 would have been RMB504 million. The directors of the Company consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Acquisition of 蘇州馳聲信息有限公司 (“蘇州馳聲信息”)

On 1 June 2015, the Group entered into an agreement with independent third parties to acquire 100% equity interests of 蘇州馳聲信息 at a consideration of RMB84,853,000. The consideration was partly satisfied by cash and is partly satisfied by the allotment and issue of 9,591,159 new shares of Best Assistant, an indirect non-wholly owned subsidiary of the Company. The transaction was completed on 27 August 2015. 蘇州馳聲信息 is principally engaged in voice and speech technology and software development.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | <i>RMB'000</i> |
|---|----------------|
| Non-current assets | |
| Property, plant and equipment | 1,914 |
| Intangible assets | 57,675 |
| Current assets | |
| Trade receivables | 433 |
| Other receivables, prepayments and deposits | 503 |
| Bank balances and cash | 2,380 |
| Current liability | |
| Trade and other payables | (1,225) |
| Non-current liability | |
| Deferred tax liabilities | <u>(7,924)</u> |
| Net assets acquired | <u>53,756</u> |

Goodwill arising on acquisition of 蘇州馳聲信息

| | <i>RMB'000</i> |
|--|-----------------|
| Consideration transferred | 84,853 |
| Less: Fair value of identifiable net assets acquired | <u>(53,756)</u> |
| Goodwill arising on acquisition | <u>31,097</u> |

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Net cash outflow on acquisition of 蘇州馳聲信息

| | <i>RMB'000</i> |
|--|----------------|
| Consideration paid in cash | 74,000 |
| Less: Cash and cash equivalent balances acquired | <u>(2,380)</u> |
| | <u>71,620</u> |

Impact of acquisition on the results of the Group

Included in the loss for the year ended 31 December 2015 was the loss of approximately RMB4,188,000 attributable to the additional business generated by 蘇州馳聲信息. Revenue for the year ended 31 December 2015 included RMB2,144,000 generated from 蘇州馳聲信息.

Had the acquisition been completed on 1 January 2015, total group revenue for the year ended 31 December 2015 would have been RMB1,279 million, and loss for year ended 31 December 2015 would have been RMB190 million. The directors of the Company consider these ‘pro-forma’ numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2016, we had a pledged bank deposit, bank deposits and bank balances and cash of approximately RMB932.4 million (31 December 2015: RMB1,710.0 million). The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.01 (31 December 2015: 0.01). As at 31 December 2016, total bank borrowings of the Group amounted to approximately RMB29.0 million (31 December 2015: RMB25.1 million) were floating-rate loans and were secured by share pledges over the shares and fixed and floating charges over the assets of certain subsidiaries.

As at 31 December 2016, the Group had net current assets of approximately RMB961.9 million as compared with approximately RMB1,352.4 million as at 31 December 2015.

STAFF INFORMATION

For the year under review, the breakdown of the number of employees of the Group is set out below:

| | At 31 December 2016 | At 30 September 2016 | At 31 December 2015 |
|---|---------------------------|----------------------------|---------------------------|
| Research and development | 3,468 | 3,506 | 2,874 |
| Selling and marketing | 1,221 | 1,191 | 1,009 |
| Accounting, finance and general administration | 1,008 | 1,002 | 828 |
| Production | 244 | 287 | 173 |
| Total | <u>5,941</u> | <u>5,986</u> | <u>4,884</u> |

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chp 571 of the Laws of Hong Kong) (“SFO”)), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), to be notified to the Company and the Stock Exchange, were as follows:

| Name of Director | Name of Company | Capacity and nature of interests | Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i> | Approximate percentage of shareholding |
|---|--------------------|---|--|--|
| Liu Dejian <i>(Note 2)</i> | The Company | Beneficial owner, through a controlled corporation and beneficiary of a trust | 254,138,457 (L) | 51.23% |
| Liu Dejian <i>(Note 3)</i> | NetDragon (Fujian) | Beneficial owner | RMB299,880,000 (L) | 99.96% |
| Leung Lim Kin, Simon <i>(Note 4)</i> | The Company | Beneficial owner | 100,000(L) | 0.02% |
| Liu Luyuan <i>(Note 2)</i> | The Company | Beneficial owner and beneficiary of certain trust | 255,822,457 (L) | 51.57% |
| Liu Luyuan <i>(Note 3)</i> | NetDragon (Fujian) | Beneficial owner | RMB299,880,000 (L) | 99.96% |
| Zheng Hui <i>(Note 2)</i> | The Company | Beneficial owner and through controlled corporations | 254,138,457 (L) | 51.23% |
| Zheng Hui <i>(Note 3)</i> | NetDragon (Fujian) | Beneficial owner | RMB299,880,000 (L) | 99.96% |

| Name of Director | Name of Company | Capacity and nature of interests | Number of shares and underlying shares held or amount of registered capital contributed (Note 1) | Approximate percentage of shareholding |
|--------------------------------|-----------------|---|---|--|
| Chen Hongzhan (Note 5) | The Company | Beneficial owner and beneficiary of certain trust | 11,197,019 (L) | 2.26% |
| Chao Guowei, Charles (Note 6) | The Company | Beneficial owner | 818,000 (L) | 0.16% |
| Lee Kwan Hung (Note 7) | The Company | Beneficial owner | 1,002,519 (L) | 0.20% |
| Liu Sai Keung, Thomas (Note 8) | The Company | Beneficial owner | 875,019 (L) | 0.18% |

Notes:

1. The letter “L” denotes the shareholder’s long position in the shares, underlying shares and share capital of the relevant member of the Group.
2. Liu Dejian is interested in 95.36% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 38.52% of the issued voting shares of the Company. Liu Dejian is also interested in 0.42% of the issued voting shares of the Company which is represented by beneficial interest of 1,884,000 shares and a beneficiary of a trust of 197,019 shares.

Liu Luyuan is interested in 5.69% of the issued voting shares of the Company which is represented by interest held as a beneficiary of certain trust holding in aggregate 26,541,819 shares, and the rest being underlying shares of interest of 1,684,000 share options granted by the Company.

Zheng Hui is interested in 4.64% and 100.00%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 38.52% and 3.83%, respectively, of the issued voting shares of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued voting shares of Eagle World International Inc., which in turn is interested in 2.81% of the issued voting shares of the Company. Zheng Hui is also interested in 0.30% of the issued shares of the Company which is represented by beneficial interest of 1,497,000 shares.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 51.23% of the issued voting shares of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., a trust in favour of Liu Luyuan, a trust in favour of Liu Dejian and Liu Luyuan, Fitter Property Inc., Eagle World International Inc. and their respective shares held as beneficial owner in each of their personal capacities.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 3.23%, 0.07% and 96.66%, respectively, of the registered capital of Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) (“NetDragon (Fujian)”). Liu Dejian, Liu Luyuan and Zheng Hui have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 99.96% of the registered capital of NetDragon (Fujian).
4. Leung Lim Kin, Simon is interested in 0.02% of the issued voting shares of the Company which is represented by beneficial interest of 100,000 Shares.
5. Chen Hongzhan is interested in 2.26% of the issued voting shares of the Company which is represented by personal interest of 156,200 shares and interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 shares.
6. Chao Guowei, Charles is interested in 0.16% of the issued voting shares of the Company which is represented by personal interest of 579,500 shares and the rest being the underlying shares of interest of 238,500 shares options granted by the Company.
7. Lee Kwan Hung is interested in 0.20% of the issued voting shares of the Company which is represented by personal interest of 684,519 shares and the rest being underlying shares of interest of 318,000 share options granted by the Company.
8. Liu Sai Keung, Thomas is interested in 0.18% of the issued voting shares of the Company which is represented by personal interest of 257,019 shares and the rest being underlying shares of interest of 618,000 share options granted by the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2016, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

So far as is known to the Directors, as at 31 December 2016, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

| Name of Shareholder | Name of Company | Capacity and nature of interests | Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i> | Approximate percentage of shareholding |
|---|-----------------|---|--|--|
| DJM Holding Ltd. | The Company | Beneficial owner | 191,078,100 (L) | 38.52% |
| IDG Group <i>(Note 2)</i> | The Company | Beneficial owner | 78,333,320 (L) | 15.79% |
| Ho Chi Sing <i>(Note 2)</i> | The Company | Through controlled corporations | 78,333,320 (L) | 15.79% |
| Zhou Quan <i>(Note 2)</i> | The Company | Through controlled corporations | 73,490,095 (L) | 14.81% |
| First Elite Group Limited <i>(Note 3)</i> | The Company | Beneficial owner and through controlled corporation | 26,502,415 (L) | 5.34% |
| Jardine PTC Limited <i>(Note 3)</i> | The Company | Trustee | 26,502,415 (L) | 5.34% |

Notes:

- The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.

2. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.19%, 10.48%, 2.14% and 0.98% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:
 - a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.
 - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.
 - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.
3. First Elite Group Limited is interested in 157,615 shares directly held by it and 26,344,800 shares held by Richmedia Holdings Limited, a company wholly-owned by First Elite Group Limited. First Elite Group Limited is in turn controlled by Jardine PTC Limited, which held relevant interest in trust for Liu Luyuan.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 31 December 2016.

SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 12 June 2008, the Company adopted a new share option scheme (the “Main Board Share Option Scheme”) to replace the existing share option scheme. Details of the share options outstanding and movement during the year ended 31 December 2016 are as follows:

| Grantee | Date of grant | Exercise Price HKD | As at | Number of share options | | | As at 31 |
|--|---------------|-----------------------|------------------|-------------------------|------------------|----------------|------------------|
| | | | 1 January 2016 | Granted | Exercised | Lapsed | December 2016 |
| Executive Directors | | | | | | | |
| Liu Dejian | 22.07.2011 | 4.60 | 85,200 | — | 85,200 | — | 0 |
| Liu Luyuan | 07.12.2009 | 4.33 | 1,400,000 | — | — | — | 1,400,000 |
| | 22.07.2011 | 4.60 | 284,000 | — | — | — | 284,000 |
| Zheng Hui | 22.07.2011 | 4.60 | 85,200 | — | 85,200 | — | 0 |
| Chen Hongzhan | 22.07.2011 | 4.60 | 85,200 | — | 85,200 | — | 0 |
| Independent non-executive Directors | | | | | | | |
| Chao Guowei, Charles | 04.12.2013 | 15.72 | 238,500 | — | — | — | 238,500 |
| Lee Kwan Hung | 04.12.2013 | 15.72 | 318,000 | — | — | — | 318,000 |
| Liu Sai Keung, Thomas | 22.07.2011 | 4.60 | 200,000 | — | 200,000 | — | 0 |
| | 23.04.2012 | 5.74 | 300,000 | — | — | — | 300,000 |
| | 04.12.2013 | 15.72 | 318,000 | — | — | — | 318,000 |
| Others | | | | | | | |
| Employees | 28.04.2011 | 4.80 | 2,840,729 | — | 2,129,700 | 213,577 | 497,452 |
| | 22.07.2011 | 4.60 | 115,575 | — | 56,625 | — | 58,950 |
| | 23.04.2012 | 5.74 | 762,862 | — | 257,750 | 30,818 | 474,294 |
| | 06.07.2012 | 6.53 | 363,238 | — | 113,762 | 3,150 | 246,326 |
| | 12.09.2012 | 7.20 | 50,250 | — | — | — | 50,250 |
| | 16.01.2013 | 11.164 | 426,950 | — | 56,700 | — | 370,250 |
| | 25.04.2014 | 14.66 | 556,000 | — | 278,000 | — | 278,000 |
| | 11.05.2015 | 27.75 | 214,000 | — | — | — | 214,000 |
| Total | | | <u>8,643,704</u> | <u>—</u> | <u>3,348,137</u> | <u>247,545</u> | <u>5,048,022</u> |

Note:

1. During the year under review, 455,600 share options were exercised by Directors of the Company.

SHARE AWARD SCHEME

The Company

On 2 September 2008 (the “NetDragon Adoption Date”), the Board approved and adopted the share award scheme (the “NetDragon Share Award Scheme”) in which selected employees of the Group are entitled to participate. Unless early terminated by the Board, the NetDragon Share Award Scheme shall be valid and effective for a term of ten years commencing on the NetDragon Adoption Date. The Board shall not grant any award of shares which would result in the nominal value of shares which are the subject of awards granted by the Board under the NetDragon Share Award Scheme representing in aggregate over 10% of the issued capital of the Company from time to time.

Pursuant to the rules of the NetDragon Share Award Scheme, the Group has signed an agreement with Bank of Communications Trustee Limited (the “Trustee”), for the purpose of administering the NetDragon Share Award Scheme and holding the awarded shares before they are vested.

On 31 December 2016, 227,798 awarded shares granted to a number of selected participants were outstanding. The awarded shares, which were purchased at a price of HKD5.07 per share by the Trustee, will be transferred to the selected employees at nil consideration, subject to receipt by the Trustee of (i) transfer documents prescribed by the Trustee and duly signed by the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee and (ii) a confirmation from the Company that all vesting conditions having been fulfilled.

Among 248,898 vested awarded shares as at 31 December 2016, a total of 218,212 awarded shares were vested by the Directors.

Subject to the acceptance by the relevant selected employees, such awarded shares may be held by the selected employees in their own names or such nominees, including any trustees, as designated by the selected employees.

Best Assistant Education Online Limited (“Best Assistant”)

On 7 August 2012, Best Assistant adopted a share award scheme as amended on 13 February 2015 (the “Best Assistant Share Award Scheme”) in which selected participants include senior management employees of Best Assistant and/or its subsidiaries (“Best Assistant Group”), consultants to Best Assistant Group employed by any member of the Company, its associated companies or their subsidiaries

(excluding Best Assistant Group) and any person who contributes to the development of Best Assistant Group which has been certified and determined by the board of directors of Best Assistant with the affirmative vote of one director appointed by IDG Investors, Vertex or Alpha.

Subject to early termination, the Best Assistant Share Award Scheme shall be valid and effective for a term of ten years commencing on 7 August 2012. Best Assistant may also transfer shares awarded under the Best Assistant Share Award Scheme whether vested or unvested to other trusts and if there is a change in control of Best Assistant, all awarded shares shall immediately be vested. The board of directors of Best Assistant may also waive any vesting conditions with the affirmative vote of one director appointed by IDG Investors, Vertex or Alpha. The maximum number of shares which may be granted to the participants under the Best Assistant Share Award Scheme shall not exceed ten percent (10%) of the total issued share capital of Best Assistant from time to time or such number of shares as determined by the board of directors of Best Assistant with the affirmative vote of one director appointed by IDG Investors, Vertex or Alpha.

Pursuant to the rules of the Best Assistant Share Award Scheme, Best Assistant has signed an agreement with the Trustee, for the purpose of administering the Best Assistant Share Award Scheme and holding the awarded shares before they are vested.

Subject to, inter alia, the receipt by the Trustee of (i) the prescribed transfer documents duly signed by the selected participants within the period stipulated in the vesting notices; and (ii) confirmation from Best Assistant that all vesting conditions having been fulfilled, the awarded shares will be transferred to the selected participants at nil consideration upon vesting.

As at 31 December 2016, no awarded shares were granted under the Best Assistant Share Award Scheme.

ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT

On 6 January 2015, Best Assistant entered into a subscription agreement (“Series A Agreement”) with IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (together referred to as “IDG Investors”), Vertex Asia Fund Pte. Ltd. (“Vertex”), Alpha Animation and Culture (Hong Kong) Company Limited (“Alpha”), Catchy Holdings Limited, DJM Holding Ltd., Creative Sky International Limited and NetDragon Websoft Inc. (“NetDragon BVI”), a direct wholly owned subsidiary of the Company (collectively referred to as “Series A Investors”) for the allotment and issue of an aggregate of 180,914,513 Series A preferred Shares (“Series A Preferred Shares”) for a total consideration of

US\$52,500,000 (equivalent to approximately HK\$409.5 million). The Series A Agreement and the issue and allotment of the Series A Preferred Shares were completed on 13 February 2015. The Series A Preferred Shares represented 100% of all issued preferred shares of Best Assistant and accounted for approximately 12.22% of all the outstanding shares of Best Assistant upon full conversion of all of the Series A Preferred Shares.

Assuming all of the Series A Preferred Shares are fully converted into ordinary shares of Best Assistant, the Company's interest in ordinary shares of Best Assistant will be reduced from 87.39% to approximately 79.04%.

As at 31 December 2016, no Series A Preferred Shares have been converted into ordinary shares of Best Assistant.

ACQUISITION OF CHERRYPICKS ALPHA RESOURCES LIMITED AND CHERRYPICKS ALPHA HOLDINGS LIMITED AND ITS SUBSIDIARIES

On 22 April 2016, Cherrypicks International Holdings Limited (the "First Purchaser") and NetDragon BVI (the "Second Purchaser"), both are wholly-owned subsidiaries of the Company, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Chiu Tsz Kiu Jason Felix (the "First Vendor") and Cherrypicks Alpha Holdings Limited (the "First Target Company"). Pursuant to the Sale and Purchase Agreement, (i) the First Vendor conditionally agreed to sell and the First Purchaser conditionally agreed to acquire the entire share capital of the First Target Company for a consideration of USD1,500,000 and the First Purchaser agrees to allot and issue its shares to the First Vendor, representing 7.8% of the entire share capital of First Purchaser as at completion as enlarged by the allotment and issue of such shares; and (ii) the First Target Company agreed to sell and the Second Purchaser conditionally agreed to acquire the entire issued share capital of Cherrypicks Alpha Resources Limited, a wholly-owned subsidiary of the First Target Company, for an aggregate consideration of USD3,160,000 which was satisfied in full by the allotment and issue of 1,087,621 new shares of the Company credited as fully paid up at an issue price of HKD22.6623 (the "Consideration Shares") pursuant to the general mandate granted to the directors by the shareholders at the annual general meeting of the Company on 21 May 2015. The Consideration Shares were held in a securities account in the name of the trustee, Bank of Communications Trustee Limited and shall hold the Consideration Shares upon trust exclusively for the First Vendor and certain employees of (i) Cherrypicks Alpha Resources Limited, (ii) the First Purchaser; (iii) the First Target Company, its subsidiaries and associated companies from time to time after completion and subject to certain vesting conditions and other terms and conditions set out in the Trust Document. The completion of the Sale and Purchase Agreement took place on 19 May 2016. The Consideration Shares were allotted and issued on 19 May 2016.

Further details of the acquisition are set out in the announcements of the Company dated 22 April 2016, 3 May 2016 and 19 May 2016, respectively.

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out on the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the year ended 31 December 2016.

FINAL DIVIDEND

At the Board meeting held on Thursday, 23 March 2017, it was proposed that a final dividend of HKD0.10 per share for the year ended 31 December 2016, amounting to approximately RMB44,374,000 be paid on or before Thursday, 15 June 2017 to the shareholders of the Company whose names appear on the Company's register of members at the close of business on Wednesday, 24 May 2017. The proposed final dividend is subject to the approval by the shareholders of the Company at the forthcoming AGM to be held on Thursday, 18 May 2017.

CLOSURE OF REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the 2017 AGM

The Company's register of members will be closed from Tuesday, 16 May 2017 to Thursday, 18 May 2017, both days inclusive, during which time no transfer of shares will be registered. In order to ensure that the shareholders are entitled to attend and vote at the AGM, the shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Monday, 15 May 2017 for registration of the relevant transfer.

(b) For determining the entitlement to the proposed final dividend

The Board has recommended the payment of a final dividend of HKD0.10 per share for the year ended 31 December 2016 to shareholders whose names appear on the register of members of the Company on Wednesday, 24 May 2017 subject to the approval of the shareholders of the Company at the AGM. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 24 May 2017 to Friday, 26 May 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 23 May 2017.

PUBLICATION OF FINAL RESULTS AND 2016 ANNUAL REPORT

The final results announcement of the Company is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://ir.nd.com.cn>). The annual report will be dispatched to the shareholders of the Company and will be available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://ir.nd.com.cn>) in due course.

ANNUAL GENERAL MEETING

The 2017 AGM will be held on Thursday, 18 May 2017. A notice convening the AGM will be published and dispatched to the shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or any of their respective associates (as defined under the Listing Rules) has interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, or has any other conflict of interests with the Group as at the date of this announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year under review, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

SCOPE OF WORK OF DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, condensed consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2016 as set out in the results announcement have been agreed by the Group's auditor, Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Deloitte Touche Tohmatsu on the results announcement.

AUDIT COMMITTEE

The Company established the audit committee (the "Audit Committee") on 15 October 2007 which has adopted written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal control systems, which include financial, operational and compliance controls and risk management functions.

The Audit Committee reviews the quarterly, interim and annual consolidated financial results of the Group. In addition, the Audit Committee also reviews and approves the pricing policy and the performance for the continued connected transactions and connected transactions relating to structure contracts, other contracts and control documents of the Group.

Our Audit Committee comprises three independent non-executive Directors, namely Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas. Chao Guowei, Charles is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group's audited consolidated financial statements for the year ended 31 December 2016 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2016, the Company bought back a total of 6,548,500 shares on the Stock Exchange at an aggregate consideration of HKD129,317,655 before expenses.

Details of the shares buy-backs are as follows:

| Month of shares bought back | Number of ordinary shares bought back | Price per share | | Aggregate consideration paid HKD |
|--------------------------------|--|-----------------|---------------|---|
| | | Highest HKD | Lowest HKD | |
| January 2016 | 4,840,000 | 21.25 | 17.40 | 93,386,630 |
| December 2016 | <u>1,708,500</u> | <u>21.35</u> | <u>20.50</u> | <u>35,931,025</u> |

By Order of the Board
NetDragon Websoft Holdings Limited
Liu Dejian
Chairman

Hong Kong, 23 March 2017

As at the date of this announcement, the Board comprises five executive Directors, namely Liu Dejian, Leung Lim Kin Simon, Liu Luyuan, Zheng Hui and Chen Hongzhan; one non-executive Director, namely Lin Dongliang; and three independent non-executive Directors, namely Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas.